MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2004 ANNUAL REPORT

105-04302/

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 21, 2005

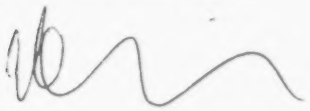
To Her Honour
The Honourable Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2004, in accordance with **The Municipal Financing Corporation Act.** The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,



Harry Van Mulligen
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Harry Van Mulligen
Chairperson

Honourable Len Taylor

OFFICERS

Mr. Rae Haverstock
General Manager

Ms. Margaret Johannsson
Assistant General Manager

Mr. Jim Fallows
Treasurer

Ms. Denise Macza
Acting Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2004

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2004, the Corporation participated in the financing of four projects in Saskatchewan by purchasing $1.3 million of municipal debentures. All of the debentures financed sewer and water projects.

The Corporation's debenture holdings at December 31, 2004 totalled $21.2 million, down $0.4 million from the total at December 31, 2003.

The Corporation recorded net earnings of $148,000 in 2004 compared to earnings of $35,000 for 2003. The improvement was caused by a reduction in interest expense that resulted from the maturity of $9.4 million of long term debentures payable. The $148,000 surplus was not significantly different from the amount budgeted (see note 9 to the financial statements).

For 2005, interest expense will again decline due to the effect of receiving a full year's benefit of the debenture payable that matured in 2004. As a result, the Corporation expects to record a higher surplus in 2005.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred $25,000 of administrative expenses in 2004. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2004, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31

	2004	2003
	(thousands of dollars)	
Amount of debentures offered to the Corporation	$ 1,550	$ 4,568
Prior year's purchase commitments carried forward	2,870	296
Total purchase commitments for the year	4,420	4,864
Prior year's purchase commitments from which the Corporation was released	2,870	0
Purchases completed	1,275	1,994
Purchase commitments outstanding at the year end	$ 275	$ 2,870

DEBENTURES PURCHASED IN 2004
(thousands of dollars)

Town of St. Walburg	$ 45
Town of Langham	800
Town of Eston	300
Village of Coleville	130
	$ 1,275

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Dudley and Company LLP, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

Rae Haverstock
General Manager

Jim Fallows, CA
Treasurer

March 21, 2005

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2004 and the statements of earnings and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Dudley + Company LLP

Regina, Canada
February 4, 2005

Dudley and Company LLP
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	2004	2003
	(thousands of dollars)	
ASSETS		
Current Assets		
Due from the General Revenue Fund (Note 3)	$ 45	$ 125
Short term investments	0	2,496
Interest receivable	626	618
Municipal debentures receivable within one year	1,716	1,668
	2,387	4,907
Investments in municipal debentures (Note 4)	19,525	19,966
Deferred financing charges	41	46
	$ 21,953	$ 24,919
LIABILITIES AND PROVINCE'S EQUITY		
Current Liabilities		
Interest payable and accrued liabilities	$ 152	$ 305
Debt payable within one year	6,482	9,391
	6,634	9,696
Long term debt payable (Note 6)	4,948	5,000
Province of Saskatchewan's Equity		
Reinvested earnings	10,371	10,223
	$ 21,953	$ 24,919

Commitments (Note 8)

See accompanying notes to the financial statements

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF EARNINGS AND REINVESTED EARNINGS

For the Year Ended December 31

	2004	2003
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	$ 1,432	$ 1,517
Investment income - short term investments and cash balances	52	39
	1,484	1,556
Expenses		
Interest on debt	1,311	1,496
Administration	25	25
	1,336	1,521
Net earnings	148	35
Reinvested earnings, beginning of year	10,223	10,188
Reinvested earnings, end of year	$ 10,371	$ 10,223

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2004	2003
	(thousands of dollars)	
Operating Activities		
Interest received from municipal debentures	$ 1,436	$ 1,569
Interest received from short term investments	51	52
Interest paid on debt	(1,481)	(1,606)
Payments to suppliers	(5)	(25)
Cash provided by (used in) operating activities	1	(10)
Investing Activities		
Purchase of municipal debentures	(1,275)	(1,994)
Amortization of discounts and premiums	(1)	(1)
Proceeds from maturing municipal debentures	1,658	2,804
Cash provided by investing activities	382	809
Financing Activities		
Issuance of long term debt	0	5,000
Repayment of long term debt	(9,441)	(5,684)
Issuance of short term debt	6,482	0
Deferred financing charges	0	(48)
Cash (used in) financing activities	(2,959)	(732)
Net increase (decrease) in cash equivalents during the year	(2,576)	67
Cash equivalents, beginning of year	2,621	2,554
Cash equivalents, end of year	$ 45	$ 2,621
Represented by:		
Due from the General Revenue Fund	45	125
Short term investments	0	2,496
	$ 45	$ 2,621

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Short term Investments

Short term investments are carried at cost. They consist entirely of highly liquid money market instruments that have very short maturity dates.

Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation sometimes purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of $250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

Deferred Financing Charges

Deferred financing charges relate to the long term debenture and are amortized on a straight-line basis over the ten year term of the loan.

Market Value of Short term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short term maturity of these financial instruments. These short term financial instruments include cash and short term investments, interest receivable, municipal debentures receivable within one year, accounts payable and accrued liabilities, and debentures payable within one year.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Fund's average daily bank account balance.

4. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by schools, hospitals, cities, towns, villages and rural municipalities throughout the Province of Saskatchewan. The Corporation's policy is to limit its purchase of debentures to no more than 50% of the total authorized borrowings of a capital project, except for water and sewer projects which can be up to 100% of the authorized borrowings. All issues of debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

The Corporation has an investment in 60 (2003 - 59) debentures issued by 46 (2003 - 44) issuers with a weighted average yield of 6.56% (2003 – 6.66%) and maturity dates ranging from 2005 through 2019.

The carrying amount invested by issuer category is as follows:

	2004	2003
	(thousands of dollars)	
Cities	$ 10,059	$ 10,423
Rural Municipalities	151	167
Schools	0	332
Towns	8,729	8,314
Villages	2,302	2,398
	21,241	21,634
Receivable within one year	1,716	1,668
	$ 19,525	$ 19,966

The fair value of these debentures is $23.5 million (2003 - $23.7 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. No debentures were redeemed during 2003 or 2004.

5. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions are as follows:

	2004	2003
	(thousands of dollars)	
Interest on debt	$ 1,311	$ 1,496
Administration	20	20

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

6. Debt

Maturity Date	Rate (%)	2004	2003
		(thousands of dollars)	
General Revenue Fund			
November 9, 2004	12.96	–	9,391
June 17, 2013	4.75	5,000	5,000
		5,000	14,391
Less: sinking fund balance		(52)	0
		4,948	14,391
Less: repayment required within one year		–	9,391
Long term debt		$ 4,948	$ 5,000

The fair value of long term debt is $5.1 million (2003 - $15.1 million). This amount is determined by discounting the debenture's future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

a) sinking funds

Under conditions attached to the 4.75% June 17, 2013 debenture, the Corporation is required to pay annually into sinking funds administered by the Saskatchewan Department of Finance a minimum of one per cent of the original principal.

b) principal repayments and sinking fund installments

Principal payments and sinking fund installments for the next five years are as follows (in thousands of dollars):

2005	-	$ 50
2006	-	$ 50
2007	-	$ 50
2008	-	$ 50
2009	-	$ 50

c) short term debt

The Corporation sometimes borrows funds on a short term basis from the GRF. At December 31, 2004, an amount of $6,482 thousand (2003 - $0) was due to the GRF at an interest rate of 2.50%.

7. Interest Rate Risk

The Corporation is exposed to interest rate risk due to the nature of its operations. Interest rate risk is created when the maturity dates of an entity's assets and liabilities are not precisely matched. The following table shows the matching of the Corporation's assets and liabilities:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2004	Difference 2003
		(thousands of dollars)		
2004	$ –	$ –	$ –	$ (4,789)
2005	2,387	6,634	(4,247)	1,617
2006	1,996	0	1,996	1,887
2007	2,117	0	2,117	2,002
2008	2,097	0	2,097	1,977
2009	1,848	0	1,848	–
Thereafter	11,508	4,948	6,560	7,529
	$ 21,953	$ 11,582	$ 10,371	$ 10,223

The effective interest rates on the Corporation's assets and liabilities are as follows:

Cash and short term investments	2.43%
Investments in municipal debentures	6.56%
Short term debt	2.50%
Long term debt	4.85%

8. Commitments

Prior to December 31, 2004, the Corporation had approved the purchase of debentures from certain local governments of which $275 thousand were not purchased before year end.

9. Operations Budget

	Budget 2004
	($ 000's)
Revenue	
Investment income - municipal debentures	$ 1,525
Investment income – short term Investments and cash balances	75
	1,600
Expenses	
Interest on debt	1,435
Administration	25
	1,460
Net earnings	$ 140